

**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**



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Application of California-American Water Company (U 210 W) to Decrease Revenues for Water Service in its Coronado District by (\$73,100) or (0.46%) in 2008 and Increase Revenues by \$266,200 or 1.67% in 2009 and \$260,900 or 1.61% in 2010

A.07-01-036

Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Larkfield District by \$1,272,000 or 61.91% in 2008, \$134,300 or 3.94% in 2009 and \$129,900 or 3.67% in 2010 Under the Current Rate Design or Decrease Revenues by (\$742,200) or (36.12%) in 2008 and Increase Revenues by \$50,000 or 3.72% in 2009 and \$63,500 or 4.55% in 2010 Under the Proposed Rate Design

A.07-01-037

Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Sacramento District by \$8,966,900 or 33.89% in 2008, \$1,905,700 or 5.36% in 2009, and \$1,860,700 or 4.97% in 2010 Under the Current Rate Design or by \$10,981,000 or 41.50% in 2008, \$1,925,900 or 5.11% in 2009, and \$1,845,600 or 4.66% in 2010 Under the Proposed Rate Design

A.07-01-038

Application of California-American Water Company (U 210 W) to Increase Revenues for Water Service in its Village District by \$1,537,300 or 7.43% in 2008, \$243,400 or 1.08% in 2009, and \$232,900 or 1.02% in 2010

A.07-01-039

**REPLY TO THE COMMENTS ON THE MARK WEST AREA COMMUNITY
SERVICES COMMITTEE ON THE SETTLEMENT AGREEMENT AS TO CERTAIN
ISSUES BETWEEN THE DIVISION OF RATEPAYER ADVOCATES AND
CALIFORNIA-AMERICAN WATER COMPANY ON THE REVENUE
REQUIREMENTS**

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REQUIREMENTS – LARKFIELD**

Pursuant to Rule 12.2 of the Rules of Practice and Procedure of the California Public Utilities Commission (“Commission”), California-American Water Company (“California American Water”) hereby submits its reply to the comments of the Mark West Area Community Services Committee (“MWACSC”) on the *Settlement Agreement as to Certain Issues Between the Division of Ratepayer Advocates and California-American Water Company on the Revenue Requirements - Larkfield*, filed July 6, 2007 (“Larkfield Settlement”). MWACSC’s objections

to the settlement are baseless and utterly without merit. California American Water urges the Commission to disregard MWACSC's gross distortions of the record and unfounded assertions and approve the Larkfield Settlement.

I. MWACSC HAD AMPLE OPPORTUNITY TO ATTEND AND PARTICIPATE IN SETTLEMENT CONFERENCES

MWACSC argues that it was excluded from settlement negotiations, yet its argument is contradicted by the facts set forth in its own comments.¹ As MWACSC correctly notes, it participated in three separate settlement conferences. The first all-party settlement conference took place on April 24, 2007 and lasted several hours. Despite MWACSC's arguments to the contrary, this meeting was a settlement conference and set the stage for future negotiations. The second all-party settlement conference took place on the afternoon of May 25, 2007 and again lasted several hours. MWACSC complains that DRA and California American Water had reached a tentative agreement on the conservation program, yet fails to take into account that the fact this is not a district-specific issue and that DRA and California American Water had been discussing the other districts in this consolidated rate case since that morning. The last all-party settlement conference occurred on June 11, 2007. Due to a communications mix-up, this was a telephonic settlement conference. California American Water and DRA offered to set up an in-person settlement conference at a later date, but MWACSC declined the offer.

The three all-party settlement conferences discussed above provided MWACSC with ample opportunity to participate in settlement negotiations. It is true that DRA and California American Water held settlement conferences that MWACSC did not attend. This is not due to any efforts to exclude MWACSC, however, but rather because of (1) the number of districts in this case, (2) the limited scope of issues addressed by MWACSC, and (3) MWACSC's lack of interest in compromise positions.

¹ MWACSC Comments, pp. 3-4.

First, MWACSC ignores the fact that this is a consolidated general rate case proceeding that addresses applications for four separate California American Water Districts: Coronado, Larkfield, Sacramento and Village. Of these four districts, Larkfield is by far the smallest. DRA and California American Water spent a significant amount of time in settlement negotiations for the three larger districts. It would have served little purpose to have MWACSC take part in these settlement negotiations, and indeed MWACSC expressed little interest in doing so.

Second, MWACSC's interest in even the Larkfield District general rate case application was limited. MWACSC focused mainly on California American Water's proposed capital projects and its request to consolidate the Sacramento and Larkfield Districts, with minor comments on the infrastructure system replacement surcharge ("ISRS") and conservation programs. MWACSC expressed little interest in other parts of the Larkfield application, such as expenses. Given MWACSC's lack of interest, DRA and California American Water conducted its settlement negotiations on Larkfield expenses, taxes and depreciation without MWACSC's participation.

Third, during the three all-party settlement conferences, MWACSC did not express any willingness to explore compromise positions. By their very nature, settlement negotiations consist of give and take between the various parties. Since MWACSC made it quite clear that it was not willing to move from its stated positions, any further settlement negotiations would not have been fruitful. DRA and California American Water were willing to compromise, as demonstrated in the Larkfield Settlement, so additional time in settlement negotiations was well spent.

MWACSC's claims that it was excluded from settlement negotiations are utterly without merit and should be dismissed by the Commission.

II. THE FAUGHT ROAD WELL IS JUSTIFIED

Contrary to MWACSC's claims, the Faught Road well project provided for in the Larkfield Settlement is more than justified. MWACSC mischaracterizes that water supply

analysis provided by California American Water as “unreliable” and claims that the 2009 customer estimates are inflated.² As California American Water has demonstrated time and again, however, not only are its future estimates reasonable, but its water supply analysis shows that the Faught Road well is necessary to address a current, not future, shortfall.

MWACSC’s conclusion that there is no water supply deficit in the Larkfield District, and therefore no need for Faught Road well, is contradicted by each of the three analyses performed by California American Water. The analyses required under the Commission’s General Order 103 as well as the industry standard water supply analysis, known as Reliable Pumping Capacity, all demonstrate that an additional well supply is prudent in order to ensure an adequate, reliable and dependable source of supply is maintained for the Larkfield District customers.³ In particular, the General Order 103 analyses demonstrate that there is a current deficit in the Larkfield District.

The analyses prepared pursuant to the Commission’s General Order 103 for the Larkfield District show that there is an existing deficit in supply and that an additional well must be constructed by 2010 to address this deficit in supply within the Larkfield District.⁴ Versions 1 and 2 of the General Order 103 “Analysis of Water Supply (Scenario A)” demonstrate that there is a current deficit of 206 gallons per minute in the Larkfield District.⁵ These analyses assume, pursuant to the requirements of General Order 103, the sustainable yield pumping rate for the groundwater sources, the value of four days of distribution storage and the average rate of water

² MWACSC Comments, p. 5.

³ Exh. 17, Rebuttal Testimony of Thomas Glover, P.E. (“Glover Rebuttal”) p. 26.

⁴ *Id.*, pp. 15-22. General Order 103, Section III, ¶ 4 provides that “[t]he quantity of water delivered to the distribution system from all source facilities should be sufficient to supply adequately, dependably and safely the total requirements of all customers under maximum consumption.”

⁵ Exh. 17, Glover Rebuttal., pp. 16-17; pp. 19-20.

purchased by California American Water from Sonoma County Water Agency in any month.⁶

Furthermore, the 2004 Operations Plan, prepared for California American Water by Bookman-Edmonston, a Division of GEI Consultants, suggests limiting the production capacity of the wells to ensure an adequate and sustained safe yield of pumping from these wells.⁷ Because the existing well production capacity does not meet the Larkfield system demand, the Larkfield District supplements its production capacity through a purchased water interconnection with the Sonoma County Water Agency Aqueduct. However, changes in water availability from the Russian River mandated by regulatory agencies as well as a new contract between California American Water and the Sonoma County Water Agency will impact California American Water's ability to meet existing and future water supply demands.⁸

California American Water performed multiple analyses of its water supply and provided a wealth of evidence supporting the need for the Faught Road well project. Its inclusion in the Larkfield Settlement is eminently reasonable and should be approved by the Commission.

III. THE WATER TREATMENT PLANT IMPROVEMENTS ARE NECESSARY

The Settlement Agreement provides for certain improvements to the Larkfield Water Treatment Plant, including design and construction of production improvements, which are necessary to ensure that 1,200 gallons per minute of treatment capacity is available and adequate to meet the current and future well capacity.⁹ MWACSC argues that these improvements are not justified.¹⁰ MWACSC is incorrect.

⁶ *Id.*, pp. 16-17; Reporter's Transcript ("RT") 469:7-21 (Glover/CAW) (describing the assumptions used pursuant to General Order 103).

⁷ Exh. 17, Glover Rebuttal, pp. 9-10.

⁸ *Id.*, pp. 7-10.

⁹ *Id.*, pp. 26-27.

¹⁰ MWACSC Comments, p. 6.

The installation of a third filter at the Larkfield Water Treatment Plant will provide a critical redundancy and ensure operational flexibility for the Larkfield Water Treatment Plant. As Mr. Glover testified, the treatment plant does not have the redundancy necessary to ensure a safe and reliable water supply. Mr. Glover explained, “with one filter out of service, the resultant capacity is 600 gpm, which is wholly inadequate to treat the available well capacity.”¹¹ This project is necessary even if the Faught Road well is not pursued and will become even more crucial when the Faught Road well is completed.¹²

IV. MWACSC'S MISCHARACTERIZES THE EFFECT OF CONSERVATION ON THE LARKFIELD DISTRICT

While California American Water is committed to conservation, it cannot solve its current shortfall through customer conservation. Not only would even the most successful conservation program fall far short of the current deficit, but the effect of conservation cannot be predicted with the level of accuracy necessary to make it reliable for planning purposes. It would be imprudent and impossible for California American Water to rely on conservation for planning purposes, generally, and to address the existing deficit, specifically.¹³

California American Water has already demonstrated that there is an existing water supply deficit and it must develop water production sources to meet maximum period demands. The fact of the matter is that any savings in water achieved through conservation will not likely reduce water supply needs during peak demand.¹⁴ The savings related to conservation have more to do with the overall use and less to do with the total production needs for a maximum use short-term period.¹⁵

¹¹ *Id.*, p. 27.

¹² *Id.*

¹³ RT 507:1-4 (Glover/CAW).

¹⁴ *See* Exh. 23, Stephenson Rebuttal, p. 45.

¹⁵ *Id.*, p. 40.

Mr. David Morse, a water conservation expert retained by California American Water, confirmed that estimates of the projected water savings should not be relied upon for water supply planning purposes because they are not reasonably accurate.¹⁶ MWACSC recognizes that the estimated projected water savings are not completely reliable, yet insists that these estimates be included for planning purposes. MWACSC's claim that California American Water should rely upon water savings estimates is not supported by credible evidence or analysis, and as such, should be disregarded. In any event, the fact remains that even with minor adjustments for conservation, the General Order 103 analysis demonstrates that there is still a significant deficit (206 gallons per minute) in the current Larkfield District water supply needs.

Last, MWACSC's statement that the Larkfield Settlement "hides" the cost of the conservation program in rates is unfounded. DRA and California American Water are not attempting to "hide" the cost of the Larkfield District conservation program. Rather, they are treating it as they would any other expense and including it in rates.

¹⁶ RT 420:24-421:27 (Morse/CAW).

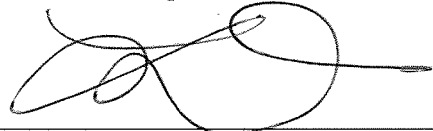
V. CONCLUSION

MWACSC's comments on the Larkfield Settlement are the latest in long series of documents contain unsupported allegation and baseless accusations. MWACSC's objections to the Larkfield Settlement are completely without merit. For the reasons discussed above, the Commission should disregard MWACSC's comments and adopt the Larkfield Settlement, as well as the other settlement agreements between DRA and California American Water.

Dated: August 20, 2007

Respectfully submitted,

STEEFEL, LEVITT & WEISS
A Professional Corporation

By: 

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PROOF OF SERVICE

I, Cinthia A. Velez, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is STEEFEL, LEVITT & WEISS, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On August 20, 2007, I served the within:

Reply to the Comments on the Mark West Area Community Services Committee on the Settlement Agreement as to Certain Issues Between The Division of Ratepayer Advocates and California-American Water Company on the Renveue Requirements

on the interested parties in this action addressed as follows:

See attached service list

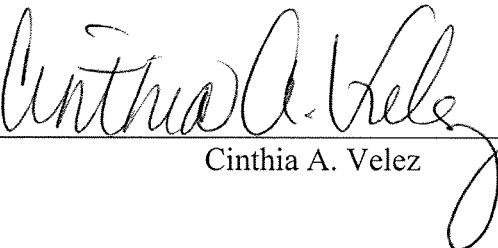


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I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on August 20, 2007, at San Francisco, California.


Cinthia A. Velez

SERVICE LIST

A. 07-01-036, A. 07-01-037, A. 07-01-038, A. 07-01-039

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